

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006

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DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September, 2005 Election)		
Dolores Altheide	President	2006
Marty Owen	Vice President	2005
Rita Grob	Board Member	2007
Rod Lynch	Board Member	2007
Edward Reese, Jr.	Board Member	2006
Rob Melvin	Board Member	2005
Kenneth Wutrich	Board Member	2005

Board of Education (After September, 2005 Election)

Dolores Altheide	President	2006
Marty Owen	Vice President	2008
Rob Melvin	Board Member	2008
Kenneth Wutrich	Board Member	2008
Rita Grob	Board Member	2007
Rod Lynch	Board Member	2007
Edward Reese, Jr.	Board Member	2006

School Officials

Anne Morgan	Superintendent	2006
Betsy Bassett	District Secretary/Treasurer and Business Manager	2006
Sue Seitz	Attorney	Indefinite
Rick Lynch		



Independent Auditor's Report

To the Board of Education
Davis County Community School District
Bloomfield, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Davis County Community School District, Bloomfield, Iowa, and its aggregate discretely presented component units, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Davis County Community School District and its aggregate discretely presented component units at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2006 on our consideration of Davis County Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 11 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Davis County Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

October 3, 2006

Davis County Community School's Management Discussion & Analysis

Davis County Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- The district managed two federal grants a year ago along with using sales tax revenue to match one of these grants. These grants were finished in this fiscal year. One grant was the Harkin Construction Grant for \$800,000, and another was the Harkin Fire Safety Grant of \$100,000. In addition, we received the Reading 1st Grant a third year for \$199,000.
- The district received \$641,000 from sales tax revenue.
- This year, the board chose to purchase a bus from the PPEL fund instead of general fund. This was done to keep money in the general fund that had taken a cut because of reduced enrollment.
- This year, we also continued to utilize some of the food service balance to update equipment.
- This year saw a large increase in fuel costs—for vehicles and heating/cooling.
- The district costs for gas service from the city went up approximately \$30,000 due to the city finding that it had misread the high school gas meter.
- Many school districts in Iowa pulled away from an insurance plan known as ISEBA a few years ago. Davis County was one. Later, ISEBA, changed the form of insurance coverage and evoked a clause in the former contract with these schools. The obligation to DC was to be over \$141,000. The schools grouped and brought a lawsuit against ISEBA. Eventually, the amount was cut in half.
- Then, an area that the board/administration continually wants to support is professional development for improvement in reading, mathematics, science, technology, and character education.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.

The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

Proprietary funds statements offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.

To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Business-type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

The District's governmental funds include the General Fund; Special Revenue Funds; and Debt Service Fund.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, school nutrition program.

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarships.

The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations. Currently, one scholarship is held in this fund.

Figure A-3 below provides a summary of the district's net assets at June 30, 2006, compared to June 30, 2005.

You will note that the net assets grew by more than \$700,000. This is due to our construction projects being completed and the increased value of property.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 7,336	7,948	153	116	7,489	8,064	-7.1%
Capital assets	4,936	4,776	118	128	5,054	4,904	3.1%
Total assets	12,272	12,724	271	244	12,543	12,968	-3.3%
Long-term liabilities	2,031	2,576	-	-	2,031	2,576	-21.2%
Other liabilities	4,656	5,391	-	-	4,656	5,391	-13.6%
Total liabilities	6,687	7,967	-	-	6,687	7,967	-16.1%
Net assets:							
Invested in capital assets, net of related debt	4,433	3,898	118	128	4,551	4,026	13.0%
Restricted	354	555	-	-	354	555	-36.2%
Unrestricted	798	426	153	116	951	542	75.5%
Total net assets	\$ 5,585	4,879	271	244	5,856	5,123	14.3%

Financial Analysis of the District as a Whole

The District has strong fund balances. Experts in school finance recommend a solvency ratio between 8-15%; the District is above that. The District has determined needs in several areas, and is carefully utilizing existing excess balances in fund to improve those areas. These areas include, but are not limited to, increasing student achievement, improving professional development, updating infrastructure needs, and maintaining a quality staff.

Figure A-4 shows the change in net assets for the year ended June 30, 2006.

Figure A-4						
Changes in Net Assets						
(Expressed in Thousands)						
	Governmental Activities		Business type Activities		Total District	
	Year ended June 30,		Year ended June 30,		Year ended June 30,	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for service	\$ 870	838	220	211	1,090	1,049
Operating grants, contributions and restricted interest	1,754	1,694	213	213	1,967	1,907
Capital grants, contributions and restricted interest	112	486	-	-	112	486
General revenues:						
Property tax	3,051	2,917	-	-	3,051	2,917
Local option sales and service tax	641	381	-	-	641	381
Unrestricted state grants	4,677	4,800	-	-	4,677	4,800
Unrestricted investment earnings	115	80	3	2	118	82
Other	24	17	-	-	24	17
Total revenues	11,244	11,213	436	426	11,680	11,639
Program expenses:						
Governmental activities:						
Instruction	6,699	7,641	-	-	6,699	7,641
Support services	3,105	3,104	-	-	3,105	3,104
Non-instructional programs	4	8	409	416	413	424
Other expenses	730	1,352	-	-	730	1,352
Total expenses	10,538	12,105	409	416	10,947	12,521
Change in net assets	\$ 706	(892)	27	10	733	(882)

In the 2005-06 school year, the district did considerable maintenance work, utilizing savings in the Physical Plant and Equipment (PPEL) fund, sales tax revenues, a fire safety grant, and a construction grant. Two years of sales tax revenue were pledged to these projects. In addition, the district has a commitment to early retirement payments.

The following table, A-5, presents the cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses. Because the grants were completed, there were fewer expenses in 2006 compared to 2005 plus the increased values of property.

Figure A-5		
Total and Net Cost of Governmental Activities		
(Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 6,699	4,431
Support services	3,105	3,105
Non-instructional programs	4	4
Other expenses	730	262
Totals	\$ 10,538	7,802

The cost of all governmental activities this year was \$10,538,000, down \$1,567,000 due to construction grants being completed and reduced enrollment.

The portion of the cost financed by users of the District's programs was \$7,802,000.

The federal and state government (and private contributors) subsidized certain programs with grants and contributions totaling \$2,736,000.

The net cost portion of governmental activities was financed with \$3,692,023 in property and sales tax, \$4,109,977 in state sources.

Business Type Activities

The District's business type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

Revenues of the District's business type activities increased by \$11,105 to \$437,058 while expenses decreased by \$7,014 to \$409,193.

The District has been able to maintain student lunch prices at the same level for several years with careful management and use of government commodities. We have utilized investments to update equipment for three years in a row. Federal support for the lunch program is \$207,310 (free/reduced lunches). Commodities received equaled \$33,713.

Financial Analysis of the District's Funds

As previously noted, the Davis County Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund Highlights

The net change in General Fund balance was \$92,965. An important note, however, is that the district purchased a bus from a different fund (PPEL) instead of the typical practice of coming from the general fund. A bus costs approximately \$60,000. The district will not always be able to purchase from PPEL because of building needs.

The Physical Plant and Equipment Levy (PPEL) and sales tax revenues were utilized for many of the items of remodeling and updating done this past year on infrastructure needs as well as the purchase of a bus.

Business Type Fund Highlights

The School Nutrition Fund change in net assets was \$27,865.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis.

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

The District was within the certified budget.

Capital Asset and Debt Administration

Figure A-6 provides a summary of the district's capital assets.

Figure A-6							
Capital Assets, net of Depreciation							
(Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 107	107	-	-	107	107	0.0%
Construction in progress	-	283	-	-	-	283	
Buildings	3,761	3,353	-	-	3,761	3,353	12.2%
Improvements other than buildings	773	753	-	-	773	753	2.7%
Furniture and equipment	295	280	118	128	413	408	1.2%
Totals	\$ 4,936	4,776	118	128	5,054	4,904	3.1%

By the end of fiscal 2006, the District had invested \$4,936,000, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, and administrative offices. The increase of 3.1% was due to building improvements.

Long-Term Debt

Figure A-7 provides a summary of the District's long term debt.

Figure A-7			
Outstanding Long-Term Obligations			
(Expressed in Thousands)			
	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
General obligation bonds	\$ 750	995	-24.6%
Early retirement	1,281	1,581	-19.0%
Totals	\$ 2,031	2,576	-21.2%

At year-end, the district had \$2,031,000 in general obligation debt and other long-term debt outstanding. This represents a decrease of \$545,000 from last year. Long-term obligations include bond payments on the elementary and early retirement obligations. The decrease is due to less obligation for early retirement.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

Future capital projects

Changes in certified enrollment

Approved debt that has not had an impact yet on the District's overall financial condition (elementary bond, early retirement)

Employee contract settlements

Physical plant needs on the high school

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Betsy Bassett, Board Secretary/Business Manager, Davis County Community Schools, 608 S. Washington Street, Bloomfield, Iowa 52537.

Basic Financial Statements

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business type Activities	Total	Component Units
Assets				
Cash and cash equivalents	\$ 3,965,291	127,809	4,093,100	34,382
Receivables:				
Property tax:				-
Delinquent	64,149	-	64,149	-
Succeeding year	3,089,210	-	3,089,210	-
Accounts	310	-	310	-
Due from other governments	216,428	-	216,428	-
Inventories	-	21,494	21,494	-
Prepaid expense	-	4,000	4,000	-
Capital assets, net of accumulated depreciation	4,936,209	117,851	5,054,060	-
Total assets	12,271,597	271,154	12,542,751	34,382
Liabilities				
Excess of warrants over bank balance	559,953	-	559,953	-
Accounts payable	111,570	-	111,570	-
Salaries and benefits payable	817,687	-	817,687	-
Accrued interest payable	1,773	-	1,773	-
Deferred revenue:				
Succeeding year property tax	3,089,210	-	3,089,210	-
Long-term liabilities:				
Portion due within one year:				
Bonds payable	245,000	-	245,000	-
Early retirement	278,457	-	278,457	-
Compensated absences	76,108	-	76,108	-
Portion due after one year:				
Bonds payable	505,000	-	505,000	-
Early retirement	1,002,215	-	1,002,215	-
Total liabilities	6,686,973	-	6,686,973	-
Net assets				
Invested in capital assets, net of related debt	4,433,087	117,851	4,550,938	-
Restricted for:				
Management levy	149,836	-	149,836	-
Debt service	12,592	-	12,592	-
Physical plant and equipment levy	57,001	-	57,001	-
Other special revenue purposes	133,943	-	133,943	-
Unrestricted	798,165	153,303	951,468	34,382
Total net assets	\$ 5,584,624	271,154	5,855,778	34,382

See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 4,847,122	509,544	796,969	-
Special instruction	1,397,835	124,913	563,256	-
Other instruction	454,184	235,345	38,269	-
	6,699,141	869,802	1,398,494	-
Support Service:				
Student services	257,992	-	-	-
Instructional staff services	145,976	-	-	-
Administration services	1,387,630	-	-	-
Operating and maintenance of plant services	623,554	-	-	-
Transportation services	690,007	-	-	-
	3,105,159	-	-	-
Non-instructional programs				
	3,690	-	-	-
Other expenditures:				
Facilities acquisition	349,303	-	-	112,429
Long-term debt interest	25,187	-	-	-
AEA flowthrough	355,258	-	355,258	-
	729,748	-	355,258	112,429
Total governmental activities	10,537,738	869,802	1,753,752	112,429
Business type activities:				
Non-instructional programs:				
Nutrition services	409,193	219,856	213,774	-
	409,193	219,856	213,774	-
Total primary government	\$ 10,946,931	1,089,658	1,967,526	112,429
Component Units:				
Program expenses	\$ 66,724	-	-	-
Management and general expenses	1,280	-	-	-
Fund raising expenses	47,650	-	111,737	-
Total component units	\$ 115,654	-	111,737	-

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Component Units
(3,540,609)	-	(3,540,609)	-
(709,666)	-	(709,666)	-
(180,570)	-	(180,570)	-
(4,430,845)	-	(4,430,845)	-
(257,992)	-	(257,992)	-
(145,976)	-	(145,976)	-
(1,387,630)	-	(1,387,630)	-
(623,554)	-	(623,554)	-
(690,007)	-	(690,007)	-
(3,105,159)	-	(3,105,159)	-
(3,690)	-	(3,690)	-
(236,874)	-	(236,874)	-
(25,187)	-	(25,187)	-
-	-	-	-
(262,061)	-	(262,061)	-
(7,801,755)	-	(7,801,755)	-
-	24,437	24,437	-
-	24,437	24,437	-
(7,801,755)	24,437	(7,777,318)	-
-	-	-	(66,724)
-	-	-	(1,280)
-	-	-	64,087
-	-	-	(3,917)

Exhibit B

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Totals from previous pages	\$ 10,946,931	1,089,658	1,967,526	112,429
General Revenues:				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Gifts to Davis County Community School District				
Gain (loss) on sale of assets				
Total general revenues				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Total	Component Units
(7,801,755)	24,437	(7,777,318)	(3,917)
2,706,112	-	2,706,112	-
269,954	-	269,954	-
74,700	-	74,700	-
641,257	-	641,257	-
4,676,732	-	4,676,732	-
114,488	3,428	117,916	166
2,678	-	2,678	15,399
19,307	-	19,307	-
2,426	-	2,426	-
8,507,654	3,428	8,511,082	15,565
705,899	27,865	733,764	11,648
4,878,725	243,289	5,122,014	22,734
\$ 5,584,624	271,154	5,855,778	34,382

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Management	Debt Service	Capital Projects	Non-major Special Revenue	Total
Assets and Other Debits						
Cash and pooled investments	\$3,112,800	422,519	8,713	212,323	208,936	3,965,291
Receivables:						
Property tax:						
Current year delinquent	51,159	5,774	5,652	-	1,564	64,149
Succeeding year	2,376,140	374,999	265,040	-	73,031	3,089,210
Accounts	310	-	-	-	-	310
Due from other governments	172,641	-	-	43,787	-	216,428
Total assets and other debits	\$5,713,050	803,292	279,405	256,110	283,531	7,335,388
Liabilities and Fund Balances						
Liabilities:						
Excess of outstanding warrants over bank balance	\$ 559,953	-	-	-	-	559,953
Accounts payable	82,782	-	-	9,232	19,556	111,570
Salaries and benefits payable	817,687	-	-	-	-	817,687
Early retirement payable	-	278,457	-	-	-	278,457
Deferred revenue:						
Succeeding year property tax	2,376,140	374,999	265,040	-	73,031	3,089,210
Compensated absences	76,108	-	-	-	-	76,108
Total liabilities	<u>3,912,670</u>	<u>653,456</u>	<u>265,040</u>	<u>9,232</u>	<u>92,587</u>	<u>4,932,985</u>
Fund balances:						
Reserved for:						
Debt service	-	-	14,365	-	-	14,365
Unreserved:						
Undesignated	1,800,380	149,836	-	246,878	190,944	2,388,038
Total fund balances	<u>1,800,380</u>	<u>149,836</u>	<u>14,365</u>	<u>246,878</u>	<u>190,944</u>	<u>2,402,403</u>
Total liabilities and fund balances	\$5,713,050	803,292	279,405	256,110	283,531	7,335,388

See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds (Exhibit C) \$ 2,402,403

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported as assets in the
governmental funds. 4,936,209

Accrued interest payable on long-term liabilities is not due and
payable in the current period and, therefore, is not reported as a
liability in the governmental funds. (1,773)

Long-term liabilities, including bonds payable and early
retirement, are not due and payable in the current period and,
therefore, are not reported as liabilities in the governmental
funds. (1,752,215)

Net assets of governmental activities (Exhibit A) \$ 5,584,624

See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	General	Management	Debt Service	Capital Projects	Non-major Special Revenue	Total
Revenues:						
Local sources:						
Local tax	\$ 2,431,689	274,423	269,954	641,257	74,700	3,692,023
Tuition	600,186	-	-	-	-	600,186
Other	137,527	1,616	237	5,205	258,826	403,411
State sources	5,515,169	241	236	-	65	5,515,711
Federal sources	917,451	-	-	49,800	62,629	1,029,880
Total revenues	9,602,022	276,280	270,427	696,262	396,220	11,241,211
Expenditures:						
Current:						
Instruction:						
Regular instruction	4,729,265	208,208	-	-	-	4,937,473
Special instruction	1,385,202	-	-	-	-	1,385,202
Other instruction	167,243	-	-	-	269,909	437,152
	6,281,710	208,208	-	-	269,909	6,759,827
Support services:						
Student services	257,427	-	-	-	-	257,427
Instructional staff services	126,382	-	-	-	-	126,382
Administration services	1,233,718	202,487	-	-	-	1,436,205
Operation and maintenance of plant services	617,071	2,012	-	-	-	619,083
Transportation services	639,917	13,592	-	-	55,587	709,096
	2,874,515	218,091	-	-	55,587	3,148,193
Non-instructional programs	-	3,690	-	-	-	3,690
Other expenditures:						
Facilities acquisition	-	-	-	566,305	118,674	684,979
Long-term debt:						
Principal	-	-	245,000	-	-	245,000
Interest and fiscal charges	-	-	25,620	-	-	25,620
AEA flowthrough	355,258	-	-	-	-	355,258
	355,258	-	270,620	566,305	118,674	1,310,857
Total expenditures	9,511,483	429,989	270,620	566,305	444,170	11,222,567
Excess (deficiency) of revenues over (under) expenditures	90,539	(153,709)	(193)	129,957	(47,950)	18,644
Other financing sources:						
Sale of equipment	2,426	-	-	-	-	2,426
Total other financing sources	2,426	-	-	-	-	2,426
Net change in fund balances	92,965	(153,709)	(193)	129,957	(47,950)	21,070
Fund balances beginning of year	1,707,415	303,545	14,558	116,921	238,894	2,381,333
Fund balances end of year	\$ 1,800,380	149,836	14,365	246,878	190,944	2,402,403

See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 21,070

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 433,090	
Depreciation expense	<u>(273,236)</u>	159,854

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		245,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		433
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		<u>279,542</u>
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Change in net assets of governmental activities (Exhibit B)		<u><u>\$ 705,899</u></u>
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See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2006

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 127,809
Accounts receivable	
Inventories	21,494
Prepaid expense	4,000
Capital assets, net of accumulated depreciation	<u>117,851</u>
Total assets	<u>271,154</u>
Liabilities	
Accounts payable	-
Salaries and benefits payable	<u>-</u>
Total liabilities	<u>-</u>
Net Assets	
Invested in capital assets, net of related debt	117,851
Unrestricted	<u>153,303</u>
Total net assets	<u><u>\$ 271,154</u></u>

See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year ended June 30, 2006

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for service	<u>\$ 219,856</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	141,301
Benefits	33,826
Purchased services	11,123
Supplies	208,204
Depreciation	14,739
Total operating expenses	<u>409,193</u>
Operating loss	<u>(189,337)</u>
Non-operating revenues:	
Interest income	3,428
State sources	6,464
Federal sources	207,310
	<u>217,202</u>
Changes in net assets	27,865
Net assets beginning of year	<u>243,289</u>
Net assets end of year	<u><u>\$ 271,154</u></u>

See notes to financial statements.

Exhibit I

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year ended June 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 211,362
Cash received from miscellaneous operating activities	8,494
Cash payments to employees for services	(175,127)
Cash payments to suppliers for goods or services	(190,122)
Net cash used in operating activities	<u>(145,393)</u>
Cash flows from non-capital financing activities:	
State grants received	6,464
Federal grants received	194,500
Net cash provided by non-capital financing activities	<u>200,964</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(5,000)</u>
Cash flows from investing activities:	
Purchase of investments	(16,842)
Interest on investments	3,428
Net cash used in investing activities	<u>(13,414)</u>
Net increase in cash and cash equivalents	37,157
Cash and cash equivalents at beginning of year	<u>73,810</u>
Cash and cash equivalents at end of year	<u><u>\$ 110,967</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (189,337)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	33,713
Depreciation	14,739
(Increase) in inventories	(508)
(Increase) in prepaid expense	(4,000)
Net cash used in operating activities	<u><u>\$ (145,393)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Statement of Net Assets:	
Current assets:	
Cash and investments	\$ 127,809
Less items not meeting definition of cash equivalent:	
Iowa Schools Joint Investment Trust	<u>(16,842)</u>
Cash and cash equivalents at year end	<u><u>\$ 110,967</u></u>
Non-cash investing, capital and financing activities:	
During the year ended June 30, 2006, the District received federal commodities valued at \$33,713.	

See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2006

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	<u>\$ 13,194</u>
Total assets	<u><u>\$ 13,194</u></u>
Net Assets	
Reserved for scholarships	<u><u>\$ 13,194</u></u>
See notes to financial statements	

Exhibit K

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
Year ended June 30, 2006

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest on investments	<u>\$ 292</u>
Deductions:	
Non-instructional services	
Services	<u>245</u>
Change in net assets	47
Net assets beginning of year	<u>13,147</u>
Net assets end of year	<u><u>\$ 13,194</u></u>
See notes to financial statements.	

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - COMPONENT UNITS
June 30, 2006

	Partners in Education	Davis County Music Boosters	Total
Assets			
Cash and pooled investments	\$ 16,356	18,026	34,382
Total assets	16,356	18,026	34,382
Net assets			
Unrestricted	16,356	18,026	34,382
Total net assets	\$ 16,356	18,026	34,382

See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - COMPONENT UNITS
Year ended June 30, 2006

	Partners in Education	Davis County Music Boosters	Total
Operating revenues:			
Contributions	\$ 15,399	-	15,399
Membership dues	-	-	-
Grants	-	-	-
Fund raisers	68,018	43,719	111,737
Total operating revenues	83,417	43,719	127,136
Operating expenses:			
Program expenses	32,645	34,079	66,724
Management and general expenses	850	430	1,280
Fund raising expenses	46,300	1,350	47,650
Total operating expenses	79,795	35,859	115,654
Operating income (loss)	3,622	7,860	11,482
Non-operating revenues:			
Interest income	-	166	166
Net non-operating revenues	-	166	166
Changes in net assets	3,622	8,026	11,648
Net assets beginning of year	12,734	10,000	22,734
Net assets end of year	\$ 16,356	18,026	34,382

See notes to financial statements.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(1) **Summary of Significant Accounting Policies**

Davis County Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Bloomfield, Iowa and the predominate agricultural territory in portions of Davis and Van Buren counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Davis County Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

These financial statements present Davis County Community School District (the primary government) and its component units. The components units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

Discrete Component Units

Partners in Education is a legally separate not-for-profit entity. Partners in Education was established for the purpose of providing additional educational and recreational services and facilities for the benefit of Davis County Community School District. Although the District does not control the timing or amount of receipts from Partners in Education, the majority of the resources that are held are used for the benefit of Davis County Community School District.

Davis County Music Boosters is a legally separate not-for-profit entity. Davis County Music Boosters was established for the purpose of enhancing band and vocal music programs for the Davis County Community School District. Although the District does not control the timing or amount of receipts from the Music Boosters, the majority of the resources that are held are used for the benefit of Davis County Community School District.

Jointly Governed Organization - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Davis County Assessor's Conference Board.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Management Fund is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in a separate fund.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	300
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments as follows:

ISJIT Diversified Portfolio	\$ 17,125
Davis County Savings Bank MM Fund	2,581,700
Davis County Savings Bank Certificates of Deposit	1,012,605
Community First Bank Certificate of Deposit	2,769
Community First Bank Savings Account	425
	<u>\$ 3,614,624</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 107,275	-	-	107,275
Construction in progress	283,181	-	283,181	-
Total capital assets not being depreciated	390,456	-	283,181	107,275
Capital assets being depreciated:				
Buildings	5,740,475	529,016	-	6,269,491
Improvements other than buildings	1,520,961	89,841	-	1,610,802
Furniture and equipment	1,658,305	97,414	43,520	1,712,199
Total capital assets being depreciated	8,919,741	716,271	43,520	9,592,492
Less accumulated depreciation for:				
Buildings	2,387,123	121,690	-	2,508,813
Improvements other than buildings	768,078	69,459	-	837,537
Furniture and equipment	1,378,641	82,087	43,520	1,417,208
Total accumulated depreciation	4,533,842	273,236	43,520	4,763,558
Total capital assets being depreciated, net	4,385,899	443,035	-	4,828,934
Governmental activities capital assets, net	\$ 4,776,355	443,035	283,181	4,936,209
Business type activities:				
Furniture and equipment	\$ 217,602	5,000	-	222,602
Less accumulated depreciation	90,012	14,739	-	104,751
Business type activities capital assets, net	\$ 127,590	(9,739)	-	117,851

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 139,058
Special	12,633
Other	17,032

Support services:

Student	565
Instructional staff	19,594
Administration	12,915
Operation and maintenance of plant	4,471
Transportation	66,968
	273,236

Unallocated

Total depreciation expense - governmental activities	\$ 273,236
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Business type activities:

Food service operations	\$ 14,739
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DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(4) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 995,000	-	245,000	750,000	245,000
Early retirement	1,581,486	-	300,814	1,280,672	278,457
	<u>\$ 2,576,486</u>	<u>-</u>	<u>545,814</u>	<u>2,030,672</u>	<u>523,457</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Bond Issue of May 1, 2003				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	2.45/2.65%	\$ 245,000	19,739	264,739
2008	2.80/2.90%	250,000	13,277	263,277
2009	3.05/3.15%	255,000	5,920	260,920
	Total	<u>\$ 750,000</u>	<u>38,936</u>	<u>788,936</u>

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306 9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$ 383,251, \$374,895, and \$360,576 respectively, equal to the required contributions for each year.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(6) Termination Benefits

The District offers a voluntary early retirement plan for all employees. Eligible employees must have been at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must have completed an application which was required to be approved by the Board of Education. An eligible employee in the early retirement program may have elected to receive either option 1 or option 2. The option elected was stated in the application. Option 1 allowed the District to pay the retiree a monthly payment beginning the first month of retirement and continuing to a maximum of 120 months. Such money payment was to be in an amount equal to .010 times the annual salary received by the retiree during the fiscal year immediately preceding retirement. Option 2 allowed the retiree to continue in the District's group health insurance covering the employee at the time of their retirement through the month in which the retiree attained 65 years of age. Early retirement benefits paid during the year ended June 30, 2006, totaled \$300,814. This program expired after the 2003-04 fiscal year and has not been renewed.

(7) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$355,258 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Restatements

The beginning fund balance of the Management Fund has been adjusted upwards in the amount of \$121,474 due to an error in accounting for the accrual of insurance expense.

Required Supplementary Information

Davis County Community School District

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2006

	Governmental Funds - Actual	Proprietary Fund-Actual
Revenues:		
Local sources	\$ 4,695,620	223,284
State sources	5,515,711	6,464
Federal sources	1,029,880	207,310
Total revenues	<u>11,241,211</u>	<u>437,058</u>
Expenditures/expenses:		
Instruction	6,759,827	-
Support services	3,148,193	-
Noninstructional programs	3,690	409,193
Other expenditures	1,310,857	-
Total expenditures/expenses	<u>11,222,567</u>	<u>409,193</u>
Excess (deficiency) of revenues over (under) expenditures	18,644	27,865
Other financing sources:		
Sale of equipment	<u>2,426</u>	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	21,070	27,865
Balance beginning of year	<u>2,381,333</u>	<u>243,289</u>
Balance end of year	<u><u>\$ 2,402,403</u></u>	<u><u>271,154</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Variance Favorable (Unfavorable)	Total as % of Budget
	Original	Final		
4,918,904	4,438,702	4,438,702	480,202	111%
5,522,175	5,794,382	5,794,382	(272,207)	95%
1,237,190	1,314,279	1,314,279	(77,089)	94%
11,678,269	11,547,363	11,547,363	130,906	101%
6,759,827	7,455,000	7,214,500	454,673	94%
3,148,193	3,066,000	3,306,500	158,307	95%
412,883	525,300	525,300	112,417	79%
1,310,857	1,966,912	1,966,912	656,055	67%
11,631,760	13,013,212	13,013,212	1,381,452	89%
46,509	(1,465,849)	(1,465,849)		
2,426	-	-		
48,935	(1,465,849)	(1,465,849)		
2,624,622	2,578,790	2,578,790		
2,673,557	1,112,941	1,112,941		

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted.

Other Supplementary Information

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR SPECIAL REVENUE FUNDS
 June 30, 2006

	Student Activity	Physical Plant and Equipment Levy	67.5 cent Schoolhouse Levy	Total
Assets				
Cash and pooled investments	\$ 133,943	69,054	5,939	208,936
Receivables:				
Property tax:				
Current year delinquent	-	1,564	-	1,564
Succeeding year	-	73,031	-	73,031
Total assets	\$ 133,943	143,649	5,939	283,531
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	13,617	5,939	19,556
Deferred revenue:				
Succeeding year property tax	-	73,031	-	73,031
Total liabilities	-	86,648	5,939	92,587
Fund equity:				
Fund balances:				
Unreserved, undesignated fund balance	133,943	57,001	-	190,944
Total liabilities and fund equity	\$ 133,943	143,649	5,939	283,531

See accompanying independent auditor's report.

Schedule 2

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 Year ended June 30, 2006

	Student Activity	Physical Plant and Equipment Levy	67.5 Cent Schoolhouse Levy	Total
Revenues:				
Local sources:				
Local tax	\$ -	74,700	-	74,700
Other	256,995	1,595	236	258,826
State sources	-	65	-	65
Federal sources	-	62,629	-	62,629
Total revenues	256,995	138,989	236	396,220
Expenditures:				
Current				
Instruction:				
Other instruction	255,128	14,781	-	269,909
Support services:				
Operation and maintenance of plant services	-	-	-	-
Transportation services	-	55,587	-	55,587
Other expenditures:				
Facilities acquisition	-	112,735	5,939	118,674
Total expenditures	255,128	183,103	5,939	444,170
Excess (deficiency) of revenues over (under) expenditures	1,867	(44,114)	(5,703)	(47,950)
Fund balance beginning of year	132,076	101,115	5,703	238,894
Fund balance end of year	\$ 133,943	57,001	-	190,944

See accompanying independent auditor's report.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Senior High				
Yearbook	\$ 11,517	5,927	5,524	11,920
Concessions	652	21,730	13,842	8,540
Mustang Pride	78	240	239	79
Athletics	14,055	39,890	41,102	12,843
Football	139	4,873	4,785	227
Baseball	2,651	3,758	4,083	2,326
Boys' Track	517	600	979	138
Wrestling	5,016	2,296	5,861	1,451
Cross Country	2,733	990	1,212	2,511
Girls' Basketball	198	1,700	793	1,105
Special Olympics	1,230	(1,230)	-	-
Boys' Basketball	2,507	5,819	7,050	1,276
Girls' Softball	889	1,787	678	1,998
Girls' Track	268	1,650	1,909	9
Girls' Volleyball	2,277	2,600	2,133	2,744
Instrumental Music	1,265	16,131	11,060	6,336
Soda	810	725	1,308	227
Vocal Music	3,143	4,257	6,271	1,129
Drama and Speech	452	160	397	215
3 Act Play	363	543	245	661
Fut. Farmers of Amer.	4,795	18,773	18,559	5,009
Quiz Bowl	22	-	-	22
Nat'l Honor Soc.	566	-	66	500
Pep Club	3,250	14,904	10,378	7,776
Spanish Club	823	1,929	2,451	301
Student Council	405	321	489	237
Art Club	123	4,497	4,482	138
Girls' Tennis	1,176	305	694	787
Boys' Tennis	471	100	508	63
Class of 2005	208	(25)	-	183
Class of 2006	6,900	(475)	4,093	2,332
Class of 2007	403	7,394	6,096	1,701
Class of 2008	474	1,338	33	1,779
Class of 2009	116	273	33	356
Class of 2010	-	66	-	66
Future Educators of America	854	185	337	702
Girls' Golf	153	817	800	170
Octagon Club	804	(15)	239	550
High School Academics	6	17,964	16,744	1,226
HS/MS Academics	1,591	4,412	5,537	466
HS Miscellaneous	378	1,446	1,824	-
HS FBLA	-	626	587	39
Home Economics	360	3,147	3,109	398
IA Science Club	-	99	76	23
Cargill Healthy	-	1,000	-	1,000

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Guidance	1	4,707	4,287	421
Boys' Golf	1,183	800	998	985
Subtotal	75,822	199,034	191,891	82,965
Middle School				
Athletics	5,347	8,312	8,378	5,281
Vocal Music	5,203	2,874	6,455	1,622
Instrumental Music	344	17	331	30
Student Council	3,716	4,821	5,658	2,879
Yearbook	5,625	2,538	2,740	5,423
Paper and Pen	394	-	-	394
7th/8th Football	4	-	-	4
7th/8th Girls Basketball	694	-	40	654
7th/8th Boys' Basketball	88	-	50	38
7th/8th Wrestling	-	-	-	-
Cross Country	150	-	-	150
Girls' Track	129	-	-	129
8th Volleyball	486	-	400	86
Student Council Pop Cans	547	483	703	327
Middle School Academics	14,260	24,621	28,462	10,419
Gifted/Talented	729	255	165	819
Subtotal	37,716	43,921	53,382	28,255
Bloomfield Elementary				
Academics	18,269	14,000	9,855	22,414
Elementary Pop	230	-	-	230
Interest	39	40	-	79
Subtotal	18,538	14,040	9,855	22,723
Total	\$ 132,076	256,995	255,128	133,943

See accompanying independent auditor's report.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	2006	2005	2004	2003	2002
Revenues:					
Local sources:					
Local tax	\$ 3,692,023	3,298,803	2,868,349	2,905,572	2,890,837
Tuition	600,186	560,369	426,545	369,288	281,188
Other	403,411	374,513	370,043	347,262	412,444
State sources	5,515,711	5,588,939	5,174,073	5,290,080	5,243,622
Federal sources	1,029,880	1,390,813	649,006	673,138	484,832
Total	<u>\$ 11,241,211</u>	<u>11,213,437</u>	<u>9,488,016</u>	<u>9,585,340</u>	<u>9,312,923</u>
Expenditures:					
Instruction:					
Regular instruction	\$ 4,937,473	4,061,128	3,836,553	3,514,299	3,443,224
Special instruction	1,385,202	2,012,697	1,783,994	1,579,726	1,518,410
Other instruction	437,152	1,011,658	806,413	816,751	726,947
Support services:					
Student services	257,427	275,258	229,569	190,222	209,942
Instructional staff services	126,382	270,315	263,706	231,455	300,584
Administration services	1,436,205	1,264,451	990,996	943,032	968,571
Operation and maintenance of plant services	619,083	617,424	605,722	565,106	589,564
Transportation services	709,096	619,903	597,750	534,063	622,570
Food service operations	3,690	8,241	8,055	9,300	8,308
Other expenditures:					
Facilities acquisition	684,979	1,169,972	214,957	31,572	18,250
Long-term debt:					
Principal	245,000	240,000	240,000	205,000	205,000
Interest and other charges	25,620	29,990	36,070	77,360	84,898
AEA flowthrough	355,258	355,649	342,137	367,023	366,645
Total	<u>\$ 11,222,567</u>	<u>11,936,686</u>	<u>9,955,922</u>	<u>9,064,909</u>	<u>9,062,913</u>

See accompanying independent auditor's report.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education			
Food Distribution (non cash)	10.550	FY 06	\$ 33,713
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 06	25,147
National School Lunch Program	10.555	FY 06	148,450
			<u>173,597</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	1619-GC-06	11,990
Title I Grants to Local Educational Agencies	84.010	1619-G-06	322,387
			<u>334,377</u>
Vocational Education - Basic Grants to States	84.048A	FY 06	29,140
Improving Teacher Quality State Grants	84.367	FY 06	94,748
State Grants for Innovative Programs (Title V Program)	84.298A	FY 06	4,130
Safe and Drug-Free Schools and Communities - State Grants	84.186A	FY 06	1,316
Reading First State Grants	84.357	FY 06	199,166
Grants for State Assessments and Related Activities (Title VI A Program)	84.369	FY 06	4,889
Iowa Demonstration Construction Grant	84.215	FY 06	49,800
Fund for the Improvement of Education(Fire Safety Grant)	84.215	FY 06	62,629
			<u>112,429</u>
Area Education Agency:			
Special Education - Grants to States (IDEA Part B)	84.027	FY 06	64,690
Total			<u>\$ 1,052,195</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Davis County Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

See accompanying independent auditor's report.

Davis County Community School District

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Davis County Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Davis County Community School District, Bloomfield, Iowa, and its aggregate discretely presented component units as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated October 3, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Davis County Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions as defined above.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Davis County Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Davis County Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

October 3, 2006

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Davis County Community School District:

Compliance

We have audited the compliance of Davis County Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Davis County Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Davis County Community School District's management. Our responsibility is to express an opinion on Davis County Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Davis County Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Davis County Community School District's compliance with those requirements.

In our opinion, Davis County Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Davis County Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Davis County Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted no matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Davis County Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving the internal control and its operation that we consider to be a material weakness as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Davis County Community School District and other parties to whom Davis County Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

October 3, 2006

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) The audit did not disclose any reportable conditions in internal control over financial reporting.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) The audit did not disclose any reportable conditions in internal control over major programs.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.215 - Iowa Demonstration Construction Grant
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (g) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (h) Davis County Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

No matters were noted.

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-06 Certified Budget - Disbursements for the year ended June 30, 2006, did not exceed the certified budgeted amounts.
- IV-B-06 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

DAVIS COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

- IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-06 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-06 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-06 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September, 2005 was understated. The District's certified enrollment count omitted five students from line 1. This resulted in understating the total actual enrollment at line 7 by five students.
- Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response – We will contact the Iowa Department of Education and the Department of Management.
- Conclusion – Response accepted.
- IV-H-06 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.